

[The third-party payment problem](#) [1]

Written by [Tom Clougherty](#) [2] | Tuesday 21 February 2012

It will probably have passed most British readers by, but US politicians have been talking a lot about contraception recently. The short version is this. First, the Obama administration decided to mandate that church-affiliated employers offer insurance that covers contraception, regardless of their religious objections. Predictably, a political firestorm kicked off. So the Obama administration came up with a ?compromise? ? church-affiliated employers won't be charged for contraception coverage, but insurers have to provide it anyway.

Now, I'm no [Rick Santorum](#) [3]. I'm a fan of contraception. But there's so much wrong with this story that it's hard to know where to start. Should the government really *compel* you to buy a service from a private company? It's probably better than the government nicking your money and providing that service themselves, but for a libertarian it still rankles. Then there's the insensitivity to deeply-held religious conviction, which not only exposes the ?liberal? left's inability to tolerate social mores that differ from their own, but also highlights the way big government inevitably tramples on diversity and choice with its one-size-fits-all monomania. And then there's the idiot-economics which suggests that you can force a company to provide a service without anyone having to pay for it. In this case, assuming insurance companies can't find a way of covertly passing on the cost of contraceptive cover to church-affiliated employers, then everyone else with insurance ends up footing the bills through higher premiums.

But perhaps the biggest problem is the one explained by Sheldon Richman in [this](#) [4] Freeman article: contraception has nothing whatsoever to do with insurance.

Insurance arose as a way for individuals to pool their risk of some low-probability/high-cost misfortune befalling them. It shouldn't be necessary to point this out, but coming of child-bearing age and choosing to use contraception is not an insurable event. It's a volitional act. It may have good consequences for the person taking the action and society at large, but it is still a volitional act. It makes no sense to talk about insuring against the eventuality that a particular person will use contraception.

This gets right to the heart of the fundamental problem with modern-day healthcare: we rely too much on third-party payment, whether by governments or insurers. As Richman says, taking out insurance (or paying taxes) so that some third-party pays when a big-ticket, catastrophic health expense comes your way is perfectly rational. But paying someone else to take responsibility for your predictable, routine, run-of-the-mill health costs is crazy. It introduces huge dead-weight administrative costs and seriously distorted incentives, and is one of the key drivers of out-of-control healthcare inflation.

As I [wrote](#) [5] a while back, ?The key to successful healthcare reform is to get patients paying doctors directly for routine services, and returning insurance (of whatever sort) to its natural role.? [This](#) [6] Adam Smith Institute report suggested a way of doing it, and we'll be addressing the issue in greater depth in a forthcoming paper on Singapore's healthcare system. Watch this space.

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